

**FINAL REPORT
OF THE
PROPERTY TAX REPLACEMENT
STUDY COMMISSION**



**Indiana Legislative Services Agency
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Indianapolis, Indiana 46204-2789**

November 2004

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Property Tax Replacement Study Commission

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November 2004

FINAL REPORT

Property Tax Replacement Study Commission

I. STATUTORY DIRECTIVE

The Indiana General Assembly enacted legislation (P.L. 64-2004) directing the Commission to study the following proposals:

1. Eliminating approximately 50% of net property tax levies;
2. Eliminating approximately 75% of net property tax levies;
3. Eliminating approximately 100% of net property tax levies.

The legislation also required that the Commission identify revenue sources capable of replacing property taxes and providing sufficient revenue to maintain essential government services.

II. INTRODUCTION AND REASONS FOR STUDY

The passage of P.L. 192 – 2002 (ss) by the General Assembly resulted in a restructuring of Indiana's tax system, including property, sales, and corporate income taxes. P.L. 192 – 2002 (ss) was passed in an attempt to mitigate the property tax increases that certain property types were going to incur as a result of the court-ordered reassessment under a system akin to market value.

While the provisions in P.L. 192 – 2002 (ss) greatly reduced the impact of the reassessment, the experience of individual property owners varied widely by location and type of property. Many homeowners and other property owners experienced reductions in their tax bills from 2002 to 2003. However, there were some that experienced significant increases even with the mitigation measures in P.L. 192 – 2002 (ss).

Due to the impact of reassessment and the mitigation efforts in P.L. 192 – 2002 (ss), the General Assembly saw a need to examine the state's reliance on property taxes in general. The General Assembly also recognized the need to examine whether all or a portion of the property tax could reasonably be replaced with other revenue sources.

III. SUMMARY OF WORK PROGRAM

The Commission met seven times during the 2004 interim session: April 27th, May 17th, June 18th, July 28th, August 16th, September 15th, and November 8th. At these meetings the Commission heard testimony on various issues relating to reassessment and property taxes, and received informational materials and reports regarding potential improvements to the property tax system and replacement of the property tax.

The Commission also established five working groups that met and developed information relating to specific tax and administrative cost issues. The working groups and a general description of their work are as follows:

1. Property Tax Administrative Issues - estimating the cost of reassessment and the continuing cost of the assessment system.
2. Local Government Services - investigating models (i.e., interlocal cooperative agreements) that might be employed to reduce cost of government services.
3. Long Term Debt Issues - investigating the potential impact of changing debt service funding from property tax to an alternative revenue source.
4. Other Tax Systems - investigating tax structures and tax relief mechanisms used by other states, in particular,

surrounding states.

5. Property Tax Levies and Controls - investigating the different sources of replacement revenue and implications of using these sources to replace property taxes.

In addition, Commissioners were asked to create their own plans to increase various state taxes as a means of replacing 50% of the statewide net property tax levy. These plans were submitted to the Chairman and discussed at the September 15th Commission meeting.

IV. SUMMARY OF TESTIMONY

The Commission heard testimony from interested parties regarding the reassessment process, the impact of reassessment, potential improvements to Indiana's property tax system, and ideas for replacement of the property tax. Testimony taken by the Commission highlighted the following points:

1. Reassessment issues and property tax rates in Lake County.
2. The reassessment process, reassessment deadlines, and the status of reassessment statewide.
3. Property tax levies by local unit and levy increases from 2002 to 2003.
4. Comparison of Indiana income, property, and sales tax levels, and the relative share of revenue generated by each, with surrounding Midwestern states.
5. Creation of a parcel-level database by the Legislative Services Agency, and the use of this database to perform tax shift analysis, estimate the impact of property tax changes, and perform other research relating to the property tax.
6. The distribution of property tax levies among local government units and the various spending uses of property tax revenue.
7. Options for increasing state taxes to replace 50%, 75%, and 100% of net property tax levies, and the impact of the changes on state tax rates.
8. Options for implementing local income and sales taxes to replace the property tax, and the potential implications of relying on these revenue sources in lieu of the property tax.
9. Estimates of the school general fund, county welfare, and county courts net levies.
10. Estimates of the business personal property net levies, and local option sales and income taxes to replace these levies.
11. Legal issues regarding the elimination of property taxes.
12. The Indiana Fiscal Policy Institute's ongoing Property Tax Equalization Study.
13. The cost of local government administration.
14. Property tax circuit breakers for homeowners.
15. Property tax assessment administration issues.
16. Farmstead exemption/deduction/credit.

V. COMMITTEE FINDINGS AND RECOMMENDATIONS

The Commission made the following findings:

The charge of the Commission may be reduced to a mathematical exercise. Exhibit 1 outlines the replacement of 50%, 75%, and 100% of property taxes with state income and sales tax revenue. In reality, it requires the consideration of many policy issues to arrive at a conclusion as to how property taxes could be significantly reduced without impairing the delivery of essential government services.

The Commission devoted considerable discussion to proposals to reduce property taxes by 50% to 100% as suggested in the legislation. However, there is no consensus to make a single recommendation to reduce or replace the property tax by 50% or more.

With respect to the 50-75-100% reduction, Commissioners were asked to submit a plan to replace 50% of the net property tax levy. Fifteen written responses were received, and two Commissioners provided verbal responses. Both verbal responses indicated that replacing 50% of the property tax levy is not feasible for various reasons. The written responses are filed with the report as Appendix A. The responses also indicate many possibilities on how to replace the property tax.

There also was a lack of consensus that reliance on property taxes as a part of the overall state and local tax structure should be reduced. Several reasons were advanced for this, as follows:

- Property taxes are a stable and a good source of revenue for local government.
- Indiana's state and local tax system currently generates equivalent shares of revenue from property, income, and sales taxes. Each tax generates about one-third of state and local tax revenue.
- Most members of the Commission representing local government were strongly opposed to any change.
- It is too soon after the general reassessment and tax restructuring to determine what the final impact of those actions may be.
- There is little confidence in state government's ability to provide adequate replacement funds.

It was recognized that the property tax system is an old system, and that the dynamic of society has changed. It was conceded that property may not be as good a measure of wealth and ability to pay as it once was, and that in particular, for business, and individuals on fixed incomes, property taxes can jeopardize the life of a business, or the ability to own a home. Between capital-intensive business and service business, there may be an inequity regarding the tax burden as long as heavy reliance is placed on property taxes. Although property taxes suffer from some equity issues, there was no consensus for substantial reduction or elimination at this time. Perhaps gradual implementation of change over time will produce a more equitable tax system for Indiana, local government units, and taxpayers.

The Commission made the following recommendations:

The Commission makes five separate recommendations regarding: (1) reduction of property taxes for homeowners, (2) elimination of certain levies which would reduce property taxes for all property taxpayers, (3) development of a report showing all debt supported by property taxes and the current status of each debt instrument, (4) development of certain reports that reflect the cost of local government, and (5) advocacy of more professionalism in the assessment process. The specific Commission recommendations and supporting information are as follows:

1. The Commission recommends that the Legislature develop a property tax circuit breaker for limiting the levy increase applicable to homeowners. The amount of relief provided by the circuit breaker should be capped, and the circuit breaker should be limited based on the income of the homeowner and the assessed value of the home. This circuit breaker could be developed as a state policy, with the state providing the relief funding to homeowners, or it could be accomplished on a county-option basis, with local units providing the tax relief. One short-term step the Legislature could implement to aid homeowners would be to make filing for a homestead exemption or credit effective immediately, and permit such taxpayers to file for a refund.
2. The Commission recommends the Legislature consider making a significant property tax reduction for property tax payers by funding the elimination of certain existing local levies. Some possibilities are as follows:
 - Eliminate the balance of property tax funding the school general fund. This would require replacement revenue of about \$670 million and currently represents about 12% of the total net levy.
 - Eliminate the balance of the welfare levy. This would require replacement revenue of about \$356.3 million and currently represents about 6% of the total net levy.

- Eliminate the levy on business personal property. This would require replacement revenue of about \$811 million and currently represents about 14% of the total net levy.
- Eliminate the levy required to operate the courts. This would require replacement revenue of about \$112.7 million and currently represents about 2% of the total net levy.
- Eliminate the State Fair and State Forestry levy. This would require replacement revenue of about \$5.25 million and represents about 0.093% of the total net levy.

There are different concerns with elimination of each of these levies. In each case it should be determined whether elimination would be a good policy.

3. The Commission recommends development of a simple, consumer-friendly, cost-of-government report. The Commission recommends that all local units of government be measured and compared by per capita budgetary cost of government. This could be contained in a master list of all like units, published for the benefit of taxpayers. Each unit could then explain and justify differences in cost to the citizens. Taxing units to be included would be counties, cities, towns, townships, library districts, and school districts. The Farm Bureau currently prepares a more comprehensive report, but does not cover all taxing units. It might be cost-efficient to contract with Farm Bureau to prepare the data as requested. Although there can be good reasons for differences, it seems most appropriate to allow the units to explain their budgets to their citizens.

4. The Commission recommends creation of a statewide report on all local debt, including current balances and terms and amortization schedules for all debt backed by property taxes. It is emphasized that no such report is currently available. Currently, 22% of property taxes are required to service debt. If property taxes are ever to be reduced in a significant way, the ramification of debt reliance on the property tax system will be relevant. This information should be collected, available, and published at least once a year.

5. The Commission recommends continued efforts to further professionalize the assessment process. The system lacks uniformity from township to township, let alone on a statewide basis. The Indiana Constitution requires a system of “uniform and equal” assessment. Whether this should be done within the current governmental structure, consolidated on a countywide basis or even on a statewide basis, has not been addressed by this Commission.

Although no recommendation is being made regarding the current assessment rules, elements of the rules, such as the “neighborhood factor,” could benefit by a review by some policymaking body.

The Commission considers its work to be useful even though it was not possible to reach consensus on the principal charge. The Commission hopes that the Legislature can use this report to continue to review, examine, and modify our tax system at an appropriate rate of change.

Exhibit 1.

Selected Property Tax Replacement Options Estimated CY 2006

Current Funding of the Gross Property Tax Levy

	CY 2006 (in \$Millions)
Estimated Gross Property Tax Levy ¹	\$7,673
Less Homestead and PTRC ²	<u>\$2,025</u>
Estimated Net Property Tax Levy Remaining	\$5,648

Alternate Funding Sources to Replace the Net Property Tax Levy

A) Sales Tax Rate Increase ³

Replacing:		Current Rate	Replacement Rate	Additional Revenue
100% of Net Levy =	\$5,648	6.0%	13.4%	\$5,647
75% of Net Levy =	\$4,236	6.0%	11.5%	\$4,236
50% of Net Levy =	\$2,824	6.0%	9.6%	\$2,824

B) Sales Tax Rate Increase and Expansion of the Sales Tax to Services ^{3, 4}

Replacing:		Current Rate	Replacement Rate	Additional Revenue
100% of Net Levy =	\$5,648	N/A	9.6%	\$5,727
75% of Net Levy =	\$4,236	N/A	8.2%	\$4,272
50% of Net Levy =	\$2,824	N/A	6.9%	\$2,839

C) Individual Adjusted Gross Income Tax Rate Increase ⁵

Replacing:		Current Rate	Replacement Rate	Additional Revenue
100% of Net Levy =	\$5,648	3.4%	8.0%	\$5,735
75% of Net Levy =	\$4,236	3.4%	6.8%	\$4,239
50% of Net Levy =	\$2,824	3.4%	5.7%	\$2,867

Notes:

1 Does not include CAGIT PTRC (Budgeted Estimated YOY Growth Estimated at 4.7%)

2 Does not include CAGIT PTRC or COIT Homestead Credits

3 Based on the January 12, 2004, Revenue Forecast Update (4.7% YOY Growth = FY05 forecast growth)

4 Exempts medical services and business-to-business services used in the production of goods

5 Based on the January 12, 2004, Revenue Forecast Update (5.1% YOY Growth = FY05 forecast growth)

Source: Legislative Services Agency, 4/27/2004.

WITNESS LIST

Representative James Buck
Kokomo

Neil Bulla
Union County

Dave Coker
Vanderburgh County

T. Fields
Indianapolis

Katrina Hall
Indiana Farm Bureau

Paul Hatfield, Pigeon Township Assessor
Vanderburgh County

Beth Henkel, Commissioner
Department of Local Government

Steve Johnson, President
Indiana Fiscal Policy Institute

Chris Johnston
Crowe Chizek

John Krauss, Director
Center for Urban Policy and the Environment

Mark Lawrance, Vice President of Corporate Development
Indiana Chamber of Commerce

Senator Frank Mrvan
Hammond

Carolyn Portwood
West College Corner

Chris Surber
New Castle

APPENDIX A

PROPOSAL 1p. 8

PROPOSAL 2p. 9

PROPOSAL 3p. 10

PROPOSAL 4p. 12

PROPOSAL 5p. 13

PROPOSAL 6p. 14

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PROPOSAL 1

(1) Proposal to replace 50% of the net property tax levy:

Taxes on services should be limited as indicated. A smaller tax on "Doctors of Medicine" raises a significant amount of revenue without too much pain. Insurance absorption of this tax results in a broad-based coverage. Gas tax increase of 10 cents/gal is less significant today with pump prices of \$2/gal compared to 10 years ago at \$1.30/gal.

Funding Sources:		Current	Replacement	Total New	Add.
Tax Base	Rate	Rate	Rate	Rate	Revenue (Millions)
Individual AGI	3.4%	4.2			982.2
Sales Tax	6.0%	7			865
Sales Tax on Select Services	-	7			179.8*
Corp AGI	8.5%	9.5			500
Utility Receipts Tax (URT)	1.4%	2			46.0
Financial Institutions Tax (FIT)	8.5%	---			---
Insurance Premiums Tax	1.3%	1.5			23
Other: Alcohol Tax-double rates					37.7
Other: Gas tax	.18/gal	.25/gal			434
Other: Riverboat Revenue	Increase	20%			100
1.3% tax Doctors of Medicine					97.9
Total Revenue Needed:				\$2820	\$2,824

* Legal services 56.6+Amusement & Rec. 91+Commercial Sports 32.2 = 179.8

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
X		Replace the Business Personal Property Tax Levy
X		Circuit Breaker for homeowners
	X	Farmstead Exemption/Deduction
	X	Review of the Assessment Manual
X		Cost of Government Report
X		Statewide database of Sales Disclosure Forms
X		Review and collection of all municipal bonds
X		Change the administration of the Assessment System

Whatever the cut in property taxes, steps should be taken to insure that it is permanent so that the burden of local government and schools are taken off the shoulders of property owners. Local government and school districts are demanding higher cost homes than consumers want to buy just so enough revenue is raised to satisfy their spending appetite. This is counterproductive to the national mandate of providing citizens with affordable housing.

PROPOSAL 2

(1) Proposal to replace 50% of the net property tax levy:

This proposal is to increase the sales tax by a penny and then extend the tax on services with the added exemption of 1) funeral services, 2) residential care, 3) child day care, 4) educational services and 5) job training and vocational rehabilitation services. It also adds a replacement rate of 1/2 % on the individual AGI (to 3.9%). The excess revenue amount would be used for a circuit breaker and to increase the property tax replacement credit to 61%

Funding Sources:		Replacement		Add.
Tax Base	Current Rate	t Rate	Total New Rate	Revenue (Millions)
Individual AGI	3.4%	.5%	3.9%	614
Sales Tax	6.0%	1%	7%	869
Sales Tax on Select Services	-		7%	2091
Corp AGI	8.5%			
Utility Receipts Tax (URT)	1.4%			
Financial Institutions Tax (FIT)	8.5%			
Insurance Premiums Tax	1.3%			
Other				
Other				
Other				
			Total	3574
Total Revenue Needed:				\$2.824

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
		Replace the Business Personal Property Tax Levy
X		Circuit Breaker for homeowners**
		Farmstead Exemption/Deduction
		Review of the Assessment Manual
X		Cost of Government Report
X		Statewide database of Sales Disclosure Forms
		Review and collection of all municipal bonds
		Change the administration of the Assessment System

** \$120 M set aside in above proposal

PROPOSAL 3

(1) Proposal to replace 50% of the net property tax levy:

Increase sales tax 1%. Use a graduated AGI tax at rates to raise nearly 2 billion dollars, with all the new revenue dedicated to replace local property taxes for elementary/secondary education and distribution on the basis of student enrollment. Option given to adopt a property sale transfer fee for state and local revenue.

Funding Sources:		Current	Replacemen	Total New	Add.
Tax Base		Rate	t Rate	Rate	Revenue (Millions)
Individual AGI		3.4%	Graduated		1980
Sales Tax		6.0%	1%	7%	869
Sales Tax on Select Services		-			
Corp AGI		8.5%			
Utility Receipts Tax (URT)		1.4%			
Financial Institutions Tax (FIT)		8.5%			
Insurance Premiums Tax		1.3%			
Other					
Other					
Other					
				Total	2829
Total Revenue Needed:					\$2,824

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
	X	Replace the Business Personal Property Tax Levy
	X	Circuit Breaker for homeowners
	X	Farmstead Exemption/Deduction
X		Review of the Assessment Manual
	X	Cost of Government Report
X		Statewide database of Sales Disclosure Forms
	X	Review and collection of all municipal bonds
X		Change the administration of the Assessment System

A new schedule for the individual AGI. All revenue collected over the current 3.4% rate would be dedicated to local property tax relief of the General Fund of elementary/secondary education based on student enrollment.

The AGI rate would be changed to a graduated rate at rates sufficient to replace 50% of the property tax plus the amount of revenue from 1% additional sales tax.

-- Increase exemption per dependant to \$1500

-- Revenue collected above or below expectation will be reflected in a decrease or increase in local property tax rates

- Use property taxes for capital projects and expenses
- Balance the state budget with spending reductions where necessary
- Limit state government spending increases to rate of inflation growth plus the percent of population growth

Total Taxable Income of Filer is	Marginal Tax Rate of Filer	Number of Filers	Add'l Tax Paid by Filer Group	% of Total	Avg. Add'l tax
0-\$22,000	4.5%	1,612,785	\$110,675,865	5.6%	\$98.62
\$22,001-45,000	5%	657,175	\$302,374,404	15.4%	\$460.11
\$45,001-80,000	5.5%	481,445	\$517,315,898	26.4%	\$1,074.51
\$80,001-140,000	6%	174,715	\$393,327,075	20%	\$2,251.25
\$140,001 and up	7%	59,662	\$638,256,804	32.5%	\$10,697.88
Total		2,985,782	\$1,961,950,046		

An additional option to collect revenue for property tax replacement would be a property sales transfer fee. Ordinary sales of home or farm to new owner resulting in \$2 million in revenue (.002% of sales price with 1 M going to state and 1 M to local government).

For agriculture land and undeveloped land sold for or to be converted for other use, the fee would be \$6 million or .006% of the sale price. Revenue would be divided equally between state and local government and the school district, in which revenue is collected.

PROPOSAL 4

(1) Proposal to replace 50% of the net property tax levy:

I am not in favor of this, but if I had to do it, I would do it this way.

If we consider a circuit breaker, I don't believe age should be a consideration since it doesn't really correspond to ability to pay. We could consider a deferred program.

Funding Sources:		Replacement		Add.
Tax Base	Current Rate	t Rate	Total New Rate	Revenue (Millions)
Individual AGI	3.4%	1.5%	4.9%	1841
Sales Tax	6.0%	1%	7%	869
Sales Tax on Select Services	-		7%	115
Corp AGI	8.5%			
Utility Receipts Tax (URT)	1.4%			
Financial Institutions Tax (FIT)	8.5%			
Insurance Premiums Tax	1.3%	.2%	1.5%	23
Other				
Other				
Other				
			Total	2848
Total Revenue Needed:				\$2,824

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
	X	Replace the Business Personal Property Tax Levy
	X	Circuit Breaker for homeowners
	X	Farmstead Exemption/Deduction
	X	Review of the Assessment Manual
	X	Cost of Government Report
	X	Statewide database of Sales Disclosure Forms
	X	Review and collection of all municipal bonds
	X	Change the administration of the Assessment System

Another possibility is to raise AGI to 4% to balance present budget and better fund schools.

Raise sales tax to 7% and on services listed above to raise about \$984 M strictly for property tax relief.

It would be about 17%.

Any additional taxes would negatively affect Indiana's competitive position.

PROPOSAL 5

(1) Proposal to replace 50% of the net property tax levy:

It is my opinion that a case for an across-the-board reduction of property taxes has not been made. However, there may be room for alleviating the major tax shift that some homeowners experienced after the 2002 reassessment. The current Indiana tax structure is balanced among the major three taxes and that is a positive aspect of our tax system. Unless the General Assembly is willing to embark on a major restructuring of local government, it is best to maintain property tax as a major funding source for local government. I would not favor an increase in income tax unless a graduated income tax rate was implemented. Persons earning higher incomes usually itemize deductions on their federal income tax returns. State income taxes paid is one of the items that can be deducted. The effective state income tax rate paid by a person who itemizes is reduced depending on the tax bracket of the taxpayer.

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
		Replace the Business Personal Property Tax Levy
X		Circuit Breaker for homeowners
		Farmstead Exemption/Deduction
		Review of the Assessment Manual
		Cost of Government Report
X		Statewide database of Sales Disclosure Forms
		Review and collection of all municipal bonds
X		Change the administration of the Assessment System

PROPOSAL 6

(1) Proposal to replace 50% of the net property tax levy:

I believe that taxes should be levied on Indiana citizens based on their ability to pay. I also believe that property taxes should not threaten the elderly who acquired decent housing during their income-producing years, but are unable because of reassessment to pay the excessive property taxes now being levied. Accordingly, I recommend that individual adjusted gross income taxes should be increased to the level required to meet the 50% reduction in property taxes. I also recommend that sales taxes should be maintained at 6%. Note: As a percentage of income, low income individuals and the elderly pay a higher percentage of their income for sales taxes than middle- and upper-income people.

PROPOSAL 7

(1) Proposal to replace 50% of the net property tax levy:

National Federation of Independent Business (NFIB) members believe strongly that government should operate as small businesses do and cut spending to live within its means. Small-business owners face many challenges and don't have the luxury of increasing their prices when times are tough, like they are right now. They make very tough decisions and expect their government to do the same. Increasing Main Street's tax burden would be extremely harmful to Indiana's efforts to increase employment and spur economic growth. Subsequently, the NFIB cannot support any measure that increases taxes on the one hand while lowering property taxes.

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
X		Replace the Business Personal Property Tax Levy
		Circuit Breaker for homeowners
X		Farmstead Exemption/Deduction
X		Review of the Assessment Manual
X		Cost of Government Report
		Statewide database of Sales Disclosure Forms
		Review and collection of all municipal bonds
X		Change the administration of the Assessment System

PROPOSAL 8

(1) Proposal to replace 50% of the net property tax levy:

The scope of the challenge that faces this Commission to reduce or eliminate property taxes is substantial. "Tax balance" is generally considered to be beneficial to economies and economic development. Indiana has one of the best tax balance ratios in the nation. Property tax is the most stable form of taxation available to government. The fact that many bonds are tied to property tax prevents the elimination of property taxes in any single act. The ability for local political subdivisions to determine the best methods of taxation is, in my opinion, the best option. However, to complete this assignment I will offer the following proposal in addition to my first option, which is to keep the existing system intact. Senate Enrolled Act 1 has penalized fiscally conservative communities and prevented them from managing their own finances and the ability recover lost tax cap funds that may have been caused by reassessment.

Funding Sources:		Replacement	Total New	Add. Revenue (Millions)
Tax Base	Current Rate	Rate	Rate	
Individual AGI	3.4%	1.5%	4.9%	\$1,841.6
Sales Tax	6.0%	1.0%	7.0%	\$869.0
Sales Tax on Select Services	-			\$107.7
Corp AGI	8.5%			
Utility Receipts Tax (URT)	1.4%			
Financial Institutions Tax (FIT)	8.5%			
Insurance Premiums Tax	1.3%			
Other				
Other				
Other				
Total Revenue Needed:				\$2,824

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
X		Replace the Business Personal Property Tax Levy
		Circuit Breaker for homeowners
		Farmstead Exemption/Deduction
		Review of the Assessment Manual
X		Cost of Government Report
X		Statewide database of Sales Disclosure Forms
X		Review and collection of all municipal bonds
X		Change the administration of the Assessment System

PROPOSAL 9

(1) Proposal to replace 50% of the net property tax levy:

My main concern about the sample proposal to replace 50 percent of the net property tax levy is the suggestion about taxing selected services. The creation of a plethora of "tax collectors" (those services collecting taxes) would be complicated and cumbersome. Moreover, I think we could expect a storm of protest about our singling out specific services to be taxed and exempting others. I do not think Indiana should tax such services as child day care, vocational rehab, job training and funeral services. I'm sure others would have their own objections to taxing specific services.

One possible replacement for taxing selected services would be to raise the Adjusted Gross Income Tax to 4.9 percent (an increase of 1.5 percent instead of 1 percent). That would generate enough income to replace the selected services tax. The changes I have suggested would generate an additional \$2,829.6 million without any increases in the utility receipts tax or insurance premiums tax.

I question whether we should change the present balanced formula of one-third property tax, one-third income tax and one-third sales tax. Perhaps, we should look at decreasing property tax by 25 percent, rather than 50 percent. Any changes that are made should ensure that local government continues to receive the revenue that is essential for the operation of city and county government.

Funding Sources:		Current	Replacement	Total New	Add.
Tax Base		Rate	Rate	Rate	Revenue (Millions)
Individual AGI		3.4%	4.9%		1,841.6
Sales Tax		6.0%	7.0%		869
Sales Tax on Select Services		-			
Corp AGI		8.5%	10.5%		100
Utility Receipts Tax (URT)		1.4%	1.4%		0
Financial Institutions Tax (FIT)		8.5%	10.5%		19
Insurance Premiums Tax		1.3%	1.3%		0
Other					
Other					
Other					
Total Revenue Needed:					\$2,824

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
		Replace the Business Personal Property Tax Levy
x		Circuit Breaker for homeowners
x		Farmstead Exemption/Deduction
x		Review of the Assessment Manual
x		Cost of Government Report
		Statewide database of Sales Disclosure Forms
		Review and collection of all municipal bonds
x		Change the administration of the Assessment System

PROPOSAL 10

(1) Proposal to replace 50% of the net property tax levy:

I propose a 1.5% increase in the sales tax to 7.5% and institution of 100% of the sales taxes on services for both personal and business services. This plan would replace 50% of the existing property taxes and provide a “cushion” of \$266,000,000 to allow for volatility of collection associated with the consumption of service and sales tax purchases.

Funding Sources:		Replacemen		Add.
Tax Base	Current Rate	t Rate	Total New Rate	Revenue (Millions)
Individual AGI	3.4%			
Sales Tax	6.0%	1.5%	7.5%	\$1,258
Sales Tax on Select Services	0%	6%	6%	\$1,832
Corp AGI	8.5%			
Utility Receipts Tax (URT)	1.4%			
Financial Institutions Tax (FIT)	8.5%			
Insurance Premiums Tax	1.3%			
Other				
Other				
Other				
<i>Total additional revenue</i>				\$3,090
Total Revenue Needed:				\$2,824

“Cushion” to reduce deficit or allow for volatility of tax stream \$266

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
	X	Replace the Business Personal Property Tax Levy
X		Circuit Breaker for homeowners
X		Farmstead Exemption/Deduction
	X	Review of the Assessment Manual
	X	Cost of Government Report
	X	Statewide database of Sales Disclosure Forms
X		Review and collection of all municipal bonds
X		Change the administration of the Assessment System

PROPOSAL 11

(1) Proposal to replace 50% of the net property tax levy:

It is my opinion that replacing 50% of the net property tax levy is not in the best interest of cities and towns, nor the citizens and businesses in the state. The property tax is the most stable source of revenue for our communities and, as such, does not suffer the volatility of the income or sales tax. I would point to the past years as evidence of this fact. It is my understanding that our current distribution of property, income and sales taxes is what most states strive for in equally sharing in the total revenue to be generated. I have very deep reservations as to how increasing income and sales taxes would be allocated back to all political subdivisions. Would the allocation be based on a net assessed valuation or upon population? In Warsaw's case it would be detrimental to our revenue if based solely on population. This, despite the fact that Warsaw and most cities are the engines for economic growth and stability within their counties. I would also submit that cities and towns should be given more fiscal control over local option taxes as new revenue sources.

In summary, I do not feel that the system is broken. The reassessment of property to a fair market system did what it was to do. While this has certainly caused some increases in isolated "hot" spots in the state, I do not see it as a statewide problem. The citizens certainly will not view kindly the imposition of new sales taxes on services nor the increase in sales or income taxes to subsidize those taxpayers who were not contributing their fair share previously.

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
	X	Replace the Business Personal Property Tax Levy
X		Circuit Breaker for homeowners
X		Farmstead Exemption/Deduction
	X	Review of the Assessment Manual
X		Cost of Government Report
	X	Statewide database of Sales Disclosure Forms
	X	Review and collection of all municipal bonds
	X	Change the administration of the Assessment System

PROPOSAL 12

Date: September 9, 2004

(1) Proposal to replace 50% of the net property tax levy:

In keeping with REALTORS® long-standing position that replacement revenue should come from broad based sources, we propose increasing the income and sales tax rates only. We also believe that the elimination of entire levies should be further studied, as well as consolidation of government proposals as are being considered in places like Marion, Allen and Vanderburgh Counties.

			<u>Millions</u>
Targeted 50% property tax levy to replace:			\$2,824
Tax Base	Current Rate	Replacement Rate	Additional Revenue
Individual AGI	3.40%	5.00%	\$1,965
Sales Tax	6.00%	7.00%	\$869
Sales Tax on Select Services	0.00%	0.00%	\$0
Corp. AGI	8.50%	8.50%	\$0
Utility Receipts Tax (URT)	1.40%	1.40%	\$0
Financial Institutions Tax (FIT)	8.50%	8.50%	\$0
Insurance Premiums Tax	1.30%	1.30%	\$0
Total levy replacement:			\$2,834

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Replace the Business Personal Property Tax Levy
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Circuit Breaker for homeowners
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Farmstead Exemption/Deduction
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Review of the Assessment Manual
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Cost of Government Report
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Statewide database of Sales Disclosure Forms
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Review and collection of all municipal bonds
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Change the administration of the Assessment System

PROPOSAL 13

(1) Proposal to replace 50% of the net property tax levy:

State property taxes **could** be replaced with income or sales tax. However, no plan for the STATE to remove local property tax would be acceptable. Instead, the state should provide more tools and freedom to local governments to replace as they determine appropriate. This committee should explore other ways to empower local decision-makers as they address local needs.

Whatever proposal is submitted to the General Assembly, it should include only taxes which are deductible on federal returns. Increasing sales tax only relieves the federal government of liability and puts more on the backs of local taxpayers.

LOCAL property tax is a local decision – the reduction would reduce local control and put more reliance on the state. The state currently has its own financial problems and includes accounting for COIT/CAGIT collections.

Funding Sources:		Replacemen		
Tax Base	Current Rate	t Rate	Total New Rate	Add. Revenue (Millions)
Individual AGI	3.4%			
Sales Tax	6.0%			
Sales Tax on Select Services	-			
Corp AGI	8.5%			
Utility Receipts Tax (URT)	1.4%			
Financial Institutions Tax (FIT)	8.5%			
Insurance Premiums Tax	1.3%			
Other				
Other				
Other				
Total Revenue Needed:				\$2,824

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
	x	Replace the Business Personal Property Tax Levy
X		Circuit Breaker for homeowners
X		Farmstead Exemption/Deduction
X		Review of the Assessment Manual
		Cost of Government Report
		Statewide database of Sales Disclosure Forms
		Review and collection of all municipal bonds
	x	Change the administration of the Assessment System

PROPOSAL 14

(1) Proposal to replace 50% of the net property tax levy:

Not a realistic goal considering the current status of the state's financial condition.

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
X		Replace the Business Personal Property Tax Levy
X		Circuit Breaker for homeowners
		Farmstead Exemption/Deduction
X		Review of the Assessment Manual
X		Cost of Government Report
	X	Statewide database of Sales Disclosure Forms
X		Review and collection of all municipal bonds
X		Change the administration of the Assessment System

PROPOSAL 15

(1) Proposal to replace 50% of the net property tax levy:

I have elected to recommend changes in three areas: 1) the Individual AGI, increasing it from 3.4 to 4.0%; 2) the general Sales Tax, increasing from 6.0 to 7.0%; and 3) the addition of Sales Tax at 7% on select services. I have also recommended that continued studies be conducted on all of the proposed areas. I think that these increases will not disadvantage us relative to our neighboring states or in terms of national competitiveness in bringing desired jobs and industries to Indiana. The one area that I have added to the selected services that was not "checked" in the provided list is hospitals. I think that it is important that we start considering how to generate revenue to support state services from nonprofits that do not pay property taxes.

Funding Sources:		Replacemen		Add.
Tax Base	Current Rate	t Rate	Total New Rate	Revenue (Millions)
Individual AGI	3.4%	0.6%	4.0%	736.7
Sales Tax	6.0%	1.0%	7.0%	869.0
Sales Tax on Select Services	-	7.0%	7.0%	1,395.6
Corp AGI	8.5%			
Utility Receipts Tax (URT)	1.4%			
Financial Institutions Tax (FIT)	8.5%			
Insurance Premiums Tax	1.3%			
Other				
Other				
Other				
Total Revenue Generated:				\$3,001.3
Total Revenue Needed:				\$2,824

(2) Proposals for continued study by the Property Tax Replacement Commission:

Yes	No	Proposal
X		Replace the Business Personal Property Tax Levy
X		Circuit Breaker for homeowners
X		Farmstead Exemption/Deduction
X		Review of the Assessment Manual
X		Cost of Government Report
X		Statewide database of Sales Disclosure Forms
X		Review and collection of all municipal bonds
X		Change the administration of the Assessment System

**ALL OF THE ABOVE PROPOSALS WERE BASED ON THE SOURCE INFORMATION BELOW
AS PROVIDED BY THE LEGISLATIVE SERVICES AGENCY**

Background Information

**Individual Adjusted Gross Income Tax Rate Changes
Estimated FY 2006 Revenue Impact
(Current Rate = 3.4%)**

Additional Tax Rate	Total Tax Rate	FY 2006 (Millions)
0.1%	3.5%	\$122.8
0.2%	3.6%	245.6
0.3%	3.7%	368.3
0.4%	3.8%	491.1
0.5%	3.9%	613.9
0.6%	4.0%	736.7
0.7%	4.1%	859.4
0.8%	4.2%	982.2
0.9%	4.3%	1,105.0
1.0%	4.4%	1,227.8
1.1%	4.5%	1,350.5
1.2%	4.6%	1,473.3
1.3%	4.7%	1,596.1
1.4%	4.8%	1,718.9
1.5%	4.9%	1,841.6
1.6%	5.0%	1,964.4
1.7%	5.1%	2,087.2
1.8%	5.2%	2,210.0
1.9%	5.3%	2,332.7
2.0%	5.4%	2,455.5
2.1%	5.5%	2,578.3
2.2%	5.6%	2,701.1
2.3%	5.7%	2,823.8
2.4%	5.8%	2,946.6
2.5%	5.9%	3,069.4
2.6%	6.0%	3,192.2

**Sales Tax Rate Changes
Estimated FY 2006 Impacts
(Current Rate = 6%)**

Additional Rate	New Rate	Revenue (Millions)
1.0%	7.0%	\$869
2.0%	8.0%	1,678
3.0%	9.0%	2,490
3.6%	9.6%	2,824

Sales Tax on Services: Personal and Business, FY 2006			
6.00% Added Tax Revenue After Exemptions (Millions)			
	SIC	Service	FY 2006
Selected	code	Total	\$559.5
X	700	Hotels and Lodges	-
X	721	Laundry and garment services	7.2
X	722	Photo studios, portrait	1.0
X	723	Beauty shops	3.1
X	724	Barber shops	.07
X	725	Shoe repair and shine	.01
X	726	Funeral service	6.9
X	729	Misc. personal services	2.0
X	731	Advertising	5.1
X	732	Consumer credit agencies	2.4
X	733	Mailing and related	11.1
X	734	Services to dwellings and other bldgs	23.7
X	735	Misc. equipment rental	-
X	736	Personnel supply services	54.7
X	737	Comp. Programming and other related	48.3
X	738	Miscellaneous business services	73.9
X	751	Automotive rental and leasing	-
X	752	Automobile parking	.4
X	753	Automotive repair shops	18.0
X	754	Automotive services, except repair	3.7
X	762	Electrical repair shops	6.0
X	763	Watch, clock, and jewelry repair	.09
X	764	Reupholstery and furniture repair	.6
X	769	Misc. repair and related services	34.7
X	781	Motion picture production and allied	.5
X	783	Motion picture theaters	2.6
X	784	Video tape rental	-
X	792	Live productions (except motion picture)	2.4
X	793	Bowling centers	1.1
X	794	Commercial sports	24.5
X	791	Dance studios, schools, and halls	.166
X	799	Misc. amusement and recreation	69.2
	801	Doctors of medicine	419.4
	802	Offices and clinics of dentists	72.2
	803	Doctors of osteopathy	8.1
	804	Other health practitioners	56.7
	805	Nursing and personal care facilities	92.6
	806	Hospitals	27.4
	807	Medical and dental laboratories	17.2
	808	Home health care services	51.2
	809	Misc. health and allied services,N.E.C.	18.0
X	810	Legal services	46.3
X	820	Educational services	4.3
X	835	Child daycare services	10.9

X	832	Individual and family social services	2.1
X	833	Job training and voc. rehab services	2.1
X	836	Residential care	3.1
X	871	Engineering, architectural, and surveying	40.9
X	872	Accounting, auditing, and bookkeeping	14.1
X	873	R and D (except noncommercial)	13.6
X	874	Management and public relations	14.4
X	890	Services, not elsewhere classified	4.6

Sales Tax on Services: Transportation and Utility, FY 2006

Selected	SIC code	Service	Total
			\$350.3
X	4111	Local and suburban transit	4.7
X	4119	Other local passenger transportation	2.5
X	412	Taxi service	.263
X	413	Interurban and rural bus transportation	2.3
X	414	Charter bus service	2.7
X	415	School bus service	2.7
X	4212	Local trucking without storage	51.7
X	4213	Trucking, except local	151.0
X	4214	Local trucking with storage	.7
X	4215	Courier services, except by air	10.6
X	4221	Farm product warehousing facilities	.06
X	4222	Refrigerated products warehousing	1.2
X	4225	General warehousing and storage	11.8
X	4226	Other special warehousing and storage	2.0
X	44	Water transportation	40.9
X	4512	Scheduled air transportation	3.5
X	4513	Air courier services	19.1
X	452	Nonscheduled air transportation	1.4
X	458	Airport terminal services	15.5
X	46	Pipelines, except natural gas	4.2
X	4724	Travel agencies	2.4
X	4725	Tour operators	.062
X	4729	Arrangers passenger transport., N.E.C.	.009
X	473	Freight shipping services	5.2
X	478	Misc. services incidental to transport.	.002
X	4812	Radiotelephone	-
X	4813	Other telephone	-
X	4832	Radio broadcasting	6.4
X	4833	Television broadcasting	7.5
X	484	Cable and other pay TV broadcasting	-
X	489	Communication services, N.E.C.	-
X	49	Electric, gas, and sanitary services	-

Sales Tax on Services: Construction, FY 2006

Selected	SIC Code	Service	FY 2006
		Total, Construction industries	\$923.6
X	15	Building construction--contractors and builders	281.3
X	16	Heavy construction other than buildings	189.9
X	17	Construction--Special trade contractors	452.4